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RUEHEG/AMEMBASSY CAIRO 2116
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RUEHRH/AMEMBASSY RIYADH 1510
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TAGS: ENRG PGOV ECON JO
SUBJECT: JORDAN ENERGY PLAN: DIVERSIFY, RELY ON PRIVATE SECTOR

Classified By: CHARGE D,AFFAIRES DANIEL RUBINSTEIN FOR REASONS 1.4 (B) AND (D).

(U) Contains proprietary information - please protect accordingly.

¶1. (C) SUMMARY: The GoJ plans to aggressively pursue policies to expand natural gas use, get the government out of the business of power generation, and end the oil refinery monopoly concession while bringing in three additional fuel distribution companies, according to the chairman of Jordan's National Agenda (NA) Infrastructure Committee. Aside from reaffirming the GoJ decision to eliminate oil subsidies, the key NA recommendations are to increase energy supplies; encourage domestic exploration; shift from oil to gas; and expand oil refining capacity. The GOJ's schedule of oil subsidy reductions is on target to end fuel supports by March ¶2007. Spurred on by King Abdullah's keen interest in reforming the energy sector, the GoJ is intent on deciding which is its best option for crude oil pipeline sources to connect to its soon-to-be-upgraded Zarqa refinery: lines could run to/from Aqaba port in Jordan, Iraq, or Saudi Arabia. A major U.S.-funded feasibility study on oil shale is another initiative that could help determine Jordan's energy future. As Jordan looks increasingly to the private sector to shape its energy matrix, the GoJ is aiming for a transparent and accountable system to attract the best infrastructure, either as independent power projects or on a build-operate-transfer basis. The Red-Dead Water Conveyance System has an energy generation component, but Jordan is having problems funding a $15 million feasibility study. END SUMMARY.

¶2. (C) Nasser al Lozi, chairman of Jordan's National Agenda (NA) Infrastructure Committee and a former Transport Minister and Information Minister in the late 1990s, hosted Econoffs on January 27 to discuss the results of the NA Infrastructure Committee whose work concluded in October. Lozi reported there has been wide acceptance of its findings and recommendations, including those of the energy subcommittee. The broad-based membership on the infrastructure committee, including the presidents of two powerful professional associations -- engineers and contractors -- resulted in a report from which "every recommendation" would already have been adopted by the government were it not for the other,

more politically difficult parts of the NA process and resulting document, according to Lozi.

NA Energy Recommendations

¶3. (SBU) The chief recommendations of the NA energy subcommittee fall under the rubric of increasing supply and managing demand:
   -- establish a regulatory framework for a liberalized sector;
   -- eliminate oil subsidies and consider fuel taxes to encourage efficient energy use;
   -- increase energy supplies through consolidated projects with neighboring states;
   -- encourage the exploration and development of indigenous reserves (gas and oil shale);
   -- shift energy fuel mix from oil to gas (gas goes from 25% to 38% share by 2010);
   -- expand oil refining capacity and diversify sources by expanding the national refinery and opening up distributorships to three other companies;
   -- establish an independent authority to promote and enforce demand-side management;
   -- establish an organization responsible for renewable energy sources; and,
   -- reformulate pricing policies and tariff structures.

¶4. (C) Aside from eliminating oil subsidies, the most significant of these recommendations is the plan to work with neighboring states. The projects listed in the NA summary include alternate oil and gas transportation infrastructures -- the crude oil Trans-Arabia Pipeline (TAP line) from Saudi Arabia, reportedly still in good repair up to the Saudi side of the Saudi-Jordanian border, is mentioned by name. Jordan

will "continue the development of interconnections for the Arab Gas Pipeline", a reference to the continued extension through Syria of the Egyptian natural gas pipeline which now terminates at Jordan's northern city of Irbid. According to Lozi, Jordan has made commitments to assist Egypt in moving the pipeline to and through Syria and on to Turkey. Finally, completing the Red-Dead canal feasibility study is listed, noting the associated hydropower generation. The NA calls for seeking the support of the international community for this study. Thinking out loud, Lozi speculated these might be among the issues raised by King Abdullah during his Washington visit. COMMENT: Jordan is still about $5 million short of its $15 million goal for the Red-Dead feasibility study. Given their international dimension, and the sensitivity of the initiatives related to Saudi Arabia and Syria, we tend to support Lozi's surmise that any of these issues may be raised at high levels by Jordanian officials. END COMMENT.

Oil Pipelines

¶5. (C) Lozi said that a crude oil pipeline from Iraq to the Zarqa refinery made sense on paper, but he wondered if the situation in Iraq would permit its implementation any time soon. He said that a Zarqa-Aqaba pipeline could work going both ways: it would be an alternate source of crude oil for the refinery and could also serve to transfer refined Iraqi crude to Aqaba port. Lozi said the Saudi TAP-line was still on Jordanian minds, but wondered aloud if this made political sense.

Oil Shale

¶6. (C) Oil shale was deemed to be feasible when crude oil prices hit $30-40/bbl, said Lozi. Now that that oil was over $60 per barrel, some progress should be made on determining the feasibility of different techniques and processes to extract the oil. Prior feasibility studies in Jordan had been conducted by private companies under contract; now the government would play a leading role to determine what

technical options were available and to tackle financial aspects such as funding and profit sharing.

¶7. (U) NOTE: On January 22, the Ambassador signed on behalf of the U.S. Trade Development Agency a $300,000 technical assistance grant agreement with Jordan's Minister of Planning and International Cooperation to conduct a feasibility study on the development of Jordan's oil shale resources. The objective of the study is to analyze the current state of shale oil extraction and recovery technologies and to apply the best international expertise to the development of the shale oil industry in Jordan. END NOTE.

Gas Pipeline

¶8. (SBU) The NA report states that natural gas use in Jordan will expand from 25 percent of all energy use now to about 38 percent of all use in 2010. The Egyptian gas pipeline from Aqaba to Irbid is the main source of natural gas. After completing the gas hook-up to a power generation plant in Rehab in the North, the government has plans to retro-fit gas-burning turbines to other plants. A big IPP project is Al Manakher, for which a contract should be signed no later than June, according to Lozi. The port area of Aqaba was already being hooked into a gas pipeline grid for delivery to businesses and residences, he said. NOTE: The contract for this system was given to the Egyptian Al Fajr consortium without bidding. END NOTE. Big contracts to hook up networks in Zarqa and Amman would go out for bids, he averred. Although under its concession with Egypt, the GOJ had given Egyptian firms right of first refusal on novel uses of gas, this special provision did not apply to the basic supply of gas. He noted that in all energy infrastructure projects, in order to have the best most efficient systems, Jordan would promote transparent, open and accountable systems of requests-for-proposals (RFPs). Jordan wanted these bids to go smoothly. COMMENT: To date, the Al Manakher

IPP bid process -- which includes U.S.-based AES among the three finalists -- has been a credible if slow process. However, the line-up of new energy RFPs has not come in any predictable or transparent fashion, perhaps because each new government takes a new look at its list of proposed infrastructure projects. It appears that Jordan, still new at the game of international bids for private-sector investments in infrastructure projects, may not be offering the most realistic terms to potential private partners. END COMMENT.

Jo-Petrol to See Competition

¶9. (SBU) Jordanian Petroleum Refinery Company (JPRC) is definitely losing its monopoly concession, said Al Lozi, but not until 2008, just as its contract stipulates. NOTE: Some official sources, including the Minister of Energy, have claimed they are trying to accelerate the end of this concession. END NOTE. In the meantime, the publicly held JPRC has already opted to refurbish and expand at the cost of about $750 million. He confirmed that CitiGroup has been selected as the financial strategic partner to oversee the financing of the JPRC facelift, which should commence in
¶2006. By next year, at least three other fuel distributors would be selected to offer Jordanians more choice and better prices at the retail level.

COMMENT:

¶10. (C) Jordan's energy reform agenda is ambitious but grounded in the GoJ,s overall goal of a liberalized economy. As is often the case, we may hear from Jordanian officials about the need for more technical assistance to make the plan a reality. Probably the biggest hurdle to putting a well-prepared plan into action, however, will be overcoming internal resistance from among those whose rice bowls will be broken.